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Verifying the Cash

THE term "verification of cash" connotes more than the mere counting of the physical cash on hand and reconciling of the bank accounts at a given date. It suggests an operation which brings into play the combined knowledge, skill, ingenuity and resourcefulness of the auditor in satisfying himself that the balance of cash as claimed is correct in every sense of the word.

The client in submitting the cash accounts for audit fondly hopes that they are correct. Modern business organization demands usually that the function of handling the cash be delegated to some employee. The employer is careful in the selection of such employee; he takes the precaution to bond him; he observes his conduct, sometimes outside as well as inside of the office, but he is not quite satisfied as to his fidelity and efficiency until his work has been independently reviewed.

The unbounded confidence which the client usually has in the ability of the auditor places a great moral responsibility on the latter. Lest this confidence be misplaced it is incumbent that the auditor equip himself to uncover any irregularity of which the cashier may be guilty. To do this, careful analysis of the work of the cashier, with the possible irregularities, is necessary.

The balance of cash is impliedly what it is shown to be by the books. The amount is the correct amount judged in the light of the contributing causes. The factors which comprise the balance are bona fide outgrowths of the preceding operations and not substitutions arranged for the occasion.

In the normal situation there are a certain number of standard operations involved in handling the cash. There is first the receipt of the cash; next the entry on the receipt side of the cash book; putting the money in the cash box or depositing it in the bank. There follows at one time or another the footing of the receipt side of the cash book and carrying forward the footings. The other operations consist in drawing checks or paying out the cash, entering the disbursements in the cash book, footing and carrying forward the disbursement side, and striking the balance. If all

these are carried out faithfully and accurately the balance resulting from the count and the reconciliation of the bank accounts will agree with the balance shown by the cash book.

In any well ordered modern concern all receipts will be deposited in the bank. No disbursements will be made otherwise than by check, except small amounts which will be paid out of a fund regularly established by the drawing of a check and consequently controlled. Unfortunately, all concerns are not well ordered nor are they modern. Cash receipts are frequently used for disbursements. Unused balances of pay-roll check proceeds are thrown into the cash. Cash is drawn from the bank by check for hand disbursement. Checks and cash are used interchangeably. The lot of the auditor is made considerably more difficult where such conditions exist, but he is none the less responsible, even though it may almost be said that any concern which knowingly permits such practices deserves no sympathy if a shortage occurs. The present discussion will probably be much clearer if the consideration of these exceptions is postponed until after taking up a case in which there is a good system and modern practice prevails.

The various ways in which the cashier may bring about irregularities are as follows: Failing to enter a cash receipt; entering it short; underfooting the receipt side of the cash book; carrying forward a footing on the receipt side short; understating a balance when carrying it forward; making entries for disbursements where no cash is paid out; drawing checks to fictitious persons or persons in collusion; overstating an entry on the disbursement side of the cash book; overfooting a disbursement page; carrying forward a footing on the disbursement side for more than it should be; stating a balance incorrectly.

(To be continued)

Accountants as Non-essentials

CONSIDERABLE anxiety was caused in the accountancy profession when the Provost Marshal General classified the accountants among those engaged in non-

portion. The production has been curtailed to about 25% of the pre-war quantity and as a result prices are almost prohibitive even if the goods can be obtained. Many bars run out of supplies and close down, and most will serve only one drink to each customer. The result is that excessive drinking is altogether eliminated.

Hand in hand with the work of winning the war goes discussion and preparation of post-war plans. Prominent in this are the representatives of the British Colonies and Over-Seas Dominions, all of whom are working for a British Empire which shall be self-sustaining and independent of the rest of the world. It is to be hoped that this idea can be extended to include the United States and our Allies, otherwise there will be danger of a trade war after "The War". Other post-war problems loom large. It is expected that demobilization will take from two to four years. The returned soldier will in many cases not want to go back to his old job, or will find it occupied by women who will not want to quit work. Other thousands who have come in contact with colonials and Americans will wish to emigrate, and the already powerful labor leaders will find additional forces to back up their demands. There is serious discussion of the confiscation of capital, the abandonment of the gold standard, and other means of reducing the burden of the war debt. All these problems will have to be faced by the United States if the war continues a few years longer, and the discussions appearing in British periodicals will repay reading.

Verifying the Cash (Continued)

MANY of the irregularities in the handling of cash are in the form of "borrowings" from the petty cash funds. Relatively few involve the bank account and the falsification or alteration of the books. The reason is apparent. In the latter situation the number of variables to be controlled is

greater. The manipulation is thus more likely to be detected.

In cases where the cash is counted at regular intervals the borrowings take place between counts. The money is usually replaced in time for the inspection of the auditor. Where an audit is not customary the shortage may go on indefinitely. Under such circumstances it is more likely to increase than decrease in amount.

The controlled or imprest fund makes easier the work of the auditor in that he knows at once the amount which he should expect to find. It also makes more difficult the work of the cashier who desires to commit irregularities in that it narrows the field in which he may operate.

The term "imprest fund" is derived from the English by whom it is used to denote an advance or loan of money. It comes from the latin word "praestare", meaning "to lend". In England it originally signified a prepayment or advance of money from the royal treasury for the purpose of carrying on some public service. In the accounting parlance of today it means a fund in a fixed amount advanced to some one for the purpose of providing for necessary disbursements, the amount of the fund being always accounted for either in cash or vouchers or both.

Where the amount of the cash is not fixed or is allowed to fluctuate the auditor is never quite sure that he has discovered all amounts properly chargeable to the cashier, sometimes even after an exhausting and time-consuming search of the records. He is thus at times in doubt as to whether or not the cashier is really short. All this is avoided where there is a fixed fund. The precise amount which should be on hand in cash or vouchers is not only known but the information is available with sufficient promptness to be of practical use. Under the other method the cashier might be several hours on his way to a foreign port before the amount of his accountability could be determined.

Where there are regular audits and the cash is counted at about the same time each

month or period the cashier who is short usually has little difficulty in obtaining and exhibiting to the auditor the amount which is needed to cover the shortage. Ways of circumventing this are admittedly difficult to find. One, and that which is the most effective, is to happen in at an unexpected moment between regular times and count the cash. Another way, which is equally effective where circumstances permit, is to count the cash at the beginning, and again at the end, of the engagement. Delaying the count with the statement that auditor does not wish to count the cash has been known to serve as a trap into which unwary cashiers have fallen. This is regarded in a somewhat unfavorable light as it puts the auditor in the position of making a false statement. Still it is argued by those who recommend it that if the cashier is found short by the auditor there arises an unfriendly situation in which a false statement or two makes little difference. Professional ethics, however, demand that the accountant keep truth on his side. If it is his intention to delay the count and he is questioned as to the matter, he may avoid it or give an answer to the question which will not commit him. The cashier will not as a rule show, even though he may feel, undue curiosity on the subject.

To deposit in the bank all the cash in hand thereby closing out the fund as suggested by some authors, seems to have little to recommend it as the cashier has only to wait until a check is drawn and a new fund created to abstract the amount he had previously put into the cash for the purpose of the count.

Helping to Win the War

COLONEL ARTHUR H. CARTER has the acquaintance of so many persons in our organization that we believe the following account of what the newspapers call his great achievement will be of interest.

Colonel Carter is Commandant of the Field Artillery Central Officers Training School at Camp Zachary Taylor, Louisville,

Kentucky. The first class, graduated August 17, 1918, numbered 1095. The graduating exercises were carried out with a snap and precision that is said to have surpassed that of the West Point cadets.

The baccalaureate address was delivered by Major General William J. Snow, Chief of the Field Artillery.

Colonel Carter addressed the class in the following scholarly and inspiring words:

"Gentlemen of the first and second battalions:

"Your military career as officers of the United States Army begins today. I hope that it will be as successful as your work has been here and that you will continue with the same energy, spirit and enthusiasm you have shown as candidates in this training school.

"You will assume new duties as commissioned officers and with them the corresponding responsibilities. You cannot fail to grasp the new duties and responsibilities with pride. Your future advancement as well as satisfaction will be achieved by constant study and observation with a view to perfecting your efficiency to the highest point.

"It is first of all an honor to serve your country as a commissioned officer in this great war. As a competent officer you will carry forward accurate and efficient preparations and training which are imperative in order that we can accomplish the mission given us by a people whose standards of living, freedom, justice, and honor demand a fitting end to this war.

"When you join your regiment you will be impressed with the opportunities afforded for a practical application of what you have learned during your course here. You will also be impressed with your lack of knowledge and experience. I strongly caution and advise you that your professional career as Field Artillery Officers demands your best efforts, willingness to learn, and careful preparation for the tasks ahead of you.

"As the first class to be graduated from this school you will set its standard in the

what good the boys get out of it, and the care they get, they would stop getting grey hairs worrying about their sons getting killed, etc. We laugh and carry on like two-year-olds, and if you had been down here last week to see the overseas 'bunch' going away, you would have wanted to know what all the noise they were making was about. We had a farewell dinner for them, and it was some dinner, too. Made me think I was at home. Consisted of fruit salad, roast pork, glazed sweet potatoes, green peas, olives, grapes, cookies, ice-cream, cake, and—the first I have tasted since leaving home—butter. I starved myself all day as I knew what we were going to get. During the day we all went to the woods and got branches of trees to decorate the mess hall. With flags of the Allies it looked great to see Old Glory in the middle of a small jungle. Speeches and talent from the camp entertained us from 7.30 till 11 P. M. I hope to go through another dinner as I am put on the permanent personnel to train the next company of 'rookies' that come in. We all went through 'gas' and I can't say when I was tested for same in the gas chamber I liked the smell. We had two tests, 'Tear Gas' and 'Chlorine,' both deadly, but everyone was sure he had the mask adjusted right before going through the tests.

"Our machine gun instruction is getting along fine, and at the long distance range, where we shoot at a target one-half a mile away, it is an experience I hope to tell the home folks some day.

"You once asked me if I wanted a sweater and a pair of sox. I thought it would have been a clumsy package to take with me at the time I was leaving, but I wish I had them with me now. The weather is very cool and the nights are actually so cold that we can't keep warm enough to get a good night's rest. Would be tickled to death to receive same at an early date."

It is perhaps needless to add that the coveted sweater and "sox" were despatched to Mr. Henriques in short order.

Verifying the Cash (Continued)

THE idea of having the auditor deposit all the cash in hand, thereby closing out the fund after having counted it, is one which seems worthy of scant consideration. The matter of depositing checks which may be found in the cash at the time of the count is a different one.

It seldom happens that the judgment of the auditor as to the value of checks which he finds in the cash is worth anything. It is an exception to the rule when he knows the signature of the maker of the check, not to mention his financial standing.

There might easily be included in the cash when it is counted any number of bogus checks of small amounts, or one check of similar nature, provided the amount involved were not sufficiently large to excite suspicion. There would be nothing to prevent the cashier from covering a shortage by putting into the cash for the duration of the count a bad check which might have every appearance of being genuine. After the count it might easily be withdrawn, unless the auditor makes up or watches closely the making up of a deposit slip and sees the checks safely lodged in the bank. The surest way is for the auditor or one of his assistants to take them personally to the bank for deposit.

It is claimed by one of the members of our staff that this step is not sufficient. He advocates arranging with the bank to notify the auditor of any checks which, for any reason, may be returned within the next few days after the deposit. The position is well taken, since any fictitious checks would thus be discovered. If this precaution were not taken and such checks were merely deposited without the coöperation of the bank, they might, when returned by the bank, find their way into the hands of the culpable person. The precaution of depositing the checks would thus be set at naught.

In the counting of the cash care should be exercised to make a complete and understandable record of the count. One has only to run through working papers frequently

to realize how often this important matter is overlooked. Even though the cash papers may be put in order and perhaps pinned together by the accountant who prepares them, they many times become unfastened and detached. In such instances the figures which they show may be the only means of connecting them.

It should be an invariable rule of the accountant never to start a working paper of any kind without giving it a proper heading. Such heading, in the case of the cash count, should embrace the name of the client, the description of the record which the sheet purports to give, the date and hour of the count, the name of the person in whose custody the cash in question is held, and the name, not initials, of the accountant who is making the count.

The record of the count should show the bills, silver, and gold, listed separately. The denominations within each of these classes and the number of items corresponding to each denomination should also appear. Checks included in the cash should be listed individually, setting forth with regard to each the number, date, payee, amount, maker, and any endorsements which may be shown. I. O. U's on any cash tickets should also be set out separately, showing the date, name, and amount.

Bills in packages should all be counted, regardless of whether they are old or new. Silver in rolls may be accepted without breaking the rolls, so long as the auditor is satisfied as to the contents of the rolls.

After the count, and without allowing the checks to get out of his control, the auditor should make up the deposit slip for the checks and see personally that the deposit is made.

The total, according to the record of the count, should be agreed with the balance in the cash book and, if possible, the general ledger. Any difference which may exist should be submitted to the person having charge of the cash, so that opportunity may be had to explain or find the difference. Any

unwarranted difference should be noted on the cash count and reported immediately to the office to which the auditor is attached. Any comment necessary should be written on the record of the count immediately, while the matter is fresh in mind.

Problem Relating to Stock with No Par Value

THE Star Specialty Corporation was organized August 31, 1917, under the laws of the State of New York providing for the organization of corporations with stock having no par value. The capital stated in the charter as the amount with which the corporation was to conduct business was \$150,000. The capital stock authorized consisted of 1,000 shares of preferred with a par value of \$100 each and 1,000 shares of common having no par value.

On September 1, 1917, the corporation took over from a predecessor company called the Star Specialty Company, a corporation organized under the laws of the State of Delaware, all the assets of the company, including certain patents and patterns, and any good-will which might have existed.

The directors of the successor company placed a value of \$150,000 on the assets acquired; the company assumed, in accordance with the agreement, liabilities of the predecessor company in the amount of \$25,000; and there was issued to the predecessor company, in settlement, 500 shares of the preferred stock and all the common stock.

Among the assets received were cash \$10,000; accounts receivable \$8,000. The balance between the total of these amounts and the value of the total assets was assigned to good-will, patents, and patterns.

The operations for the year ended August 31, 1918, resulted in a loss of \$8,500.

You are asked to prepare a balance sheet after the opening entries have been made, and to show how the deficit from operations should be treated, in preparing the balance sheet at the end of the first year's business.